



STATE OF WASHINGTON
POLLUTION LIABILITY INSURANCE AGENCY
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(360) 586-5997 • (800) 822-3905 • FAX (360) 586-7187

January 18, 2005

Dear Colleagues:

The year 2004 was a year of improved operations and successful cost cutting for the Pollution Liability Insurance Agency (PLIA). PLIA continues to ensure that pollution liability insurance is both available and affordable to thousands of owners/operators of petroleum underground storage tanks. PLIA also manages the resources that provide pollution liability protection for over 62,000 homes and businesses throughout Washington that are serviced by oil heat.

Over the past fourteen years, PLIA has saved taxpayers, homeowners, and businesses millions of dollars in insurance and environmental cleanup costs. Every state in the nation is required to implement environmental and liability insurance protection requirements for underground storage tanks for petroleum products. Washington State's innovative reinsurance program continues to be the most efficient and cost effective way in the nation to meet these requirements.

The dedicated staff of the Pollution Liability Insurance Agency looks forward to providing an even higher level of customer service to our many stakeholders in 2005. PLIA remains committed to the implementation of the highest levels of efficiency and cost savings to all our clients in the coming year. For additional detailed information concerning PLIA please visit our web site at www.plia.wa.gov. It is an honor to provide this annual summary report in recognition of their hard work.

Sincerely,

A handwritten signature in cursive script that reads "Roger R. Dovel".

Roger R. Dovel
Director

Enclosure

Roger Dovel
Director



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2004 Annual Summary Report

1/14/05

Agency Mission

The mission of the Pollution Liability Insurance Agency (PLIA) is to make pollution liability insurance available and affordable to the owners and operators of regulated petroleum underground storage tanks (USTs) and heating oil tanks by offering reinsurance services to the insurance industry.

Statistics for Calendar Year 2004:

- The average insurance premium per commercial UST site was \$1,250 compared to \$3,100 in 1990.
- PLIA reinsured 2,215 commercial UST sites or 75% of insured tanks in the state.
- PLIA received 3,316 registrations for Heating Oil Pollution Liability Insurance, making the total number of insured homes and businesses over 62,200 statewide.
- PLIA received over 160 claims and paid out over \$1 million in claim costs for insured heating oil sites.

Commercial UST Reinsurance Program

Owners of USTs are required by state and federal law to be financially responsible for corrective action in case of an accidental release of petroleum. There are a variety of ways to demonstrate financial responsibility. However, for most small businesses and local government entities, pollution liability insurance is the only practical alternative.

PLIA makes pollution liability insurance available and affordable to the owners by serving as the reinsurer of insurance policies. As the reinsurer, PLIA assumes part of the risk for each release. In the case of a \$1 million policy, PLIA is responsible for settlements over \$75,000. This assumed risk allows the insurance companies to reduce insurance premiums. The lower premiums have saved businesses and local governments over \$24 million since PLIA began in 1990. In that time, PLIA has contributed over \$11.5 million to clean up contamination at 325 PLIA reinsured sites. Private insurers have paid \$5.6 million for total claim costs exceeding \$17.1 million statewide.

Heating Oil Pollution Liability Insurance Program

Heating oil tanks used for providing heat are not regulated like commercial petroleum tanks. However, contamination resulting from a leak or spill must be addressed according to the state's cleanup regulations. PLIA has been providing coverage for owners of active heating oil tanks since 1996 with the Heating Oil Pollution Liability Insurance Program. Tank owners register with PLIA to receive up to \$60,000 in pollution liability coverage. Some insurance companies that write homeowners coverage are now requiring homeowners to have PLIA insurance. Since the program started, PLIA has received over 1,000 claims and paid for cleanups at over 540 sites.

In response to increased program costs, PLIA changed the cleanup method used at heating oil sites. This change resulted in a reduction of the average claim cost from \$17,000 in 2003 to \$6,900 in 2004. Revenue to pay for the program is generated by a fee paid annually by heating oil dealers. Legislation introduced by industry associations in 2004 increased the fee from .6 cents per gallon sold to 1.2 cents. The fee increase became effective July 1, 2004.

Underground Storage Tank Community Assistance Program

Grants were provided in the early 1990s to owners of USTs at remote and rural gas stations. Each grant was limited to \$150,000 of which no more than \$75,000 could be spent on cleanup of contamination. By 1995, USTs at 112 sites were upgraded to meet federal and state standards with cleanups conducted at 70 sites. Even though new grants are no longer being offered, PLIA is responsible for the oversight of the original grant recipients.

Financial Assessment

PLIA and its programs are funded from the Pollution Liability Trust Account (Trust Account) and the Heating Oil Pollution Liability Trust Account. Neither PLIA nor any of its programs receive any State General Fund revenue. The main source of revenue for PLIA and its programs is the Petroleum Products Tax (PPT), an excise tax of 0.5 percent on the wholesale value of petroleum on the first introduction into the state. The PPT is only collected when the unrestricted cash balance in the Trust Account falls below \$7.5 million. The tax was not collected between July 1992 and July 2003. The tax was collected from July 2003 through July 2004 and generated \$30.2 million. With the cost saving measures PLIA implemented in the Heating Oil Pollution Liability Insurance Program and the increase in the Heating Oil Fee, PLIA estimates that the tax will not be collected again until 2014. Since 1991, \$21.4 million in interest earned by the Trust Account has been transferred to the State General Fund.

Revenue for the Heating Oil Pollution Liability Trust Account is generated by the 1.2 cents per gallon fee paid yearly by heating oil dealers. This revenue covers the administrative costs of the program, the insurance premium, and a portion of the cleanup costs. The remaining claim costs are paid out of the Trust Account.

Calendar Year 2004 Financial Report

Pollution Liability Trust Account – Fund 544		2003		2004	
Cash Balance	(1/1/03)	\$18,106,143	(1/1/04)	\$24,882,448	
Revenue (tax period 7/1/03-6/30/04)		10,162,446		20,111,990	
Administrative Expenses (some oil heat admin.)		509,322		541,341	
Claim Payments	Commercial UST *	\$ 725,517	2,901,828	\$ 1,506,076	2,582,683
	Oil Heat	2,176,311		1,076,607	
Cash Balance	(12/31/03)	\$24,882,448	(12/31/04)	\$41,975,533	
Loss Reserve (set aside for existing UST claims)	\$ 3,212,186	11,212,186	\$ 3,129,348	11,129,348	
Surplus Reserve (emergency/natural disaster)	8,000,000		8,000,000		
Unrestricted Cash Balance**	(12/31/03)	\$13,645,253	(12/31/04)	\$30,846,185	

*This is only the portion paid by PLIA. Insurance companies spent \$458,481 on claims at reinsured sites in 2004.

** The unrestricted cash balance is the balance in the fund after the loss and surplus reserves are set aside.

Heating Oil Liability Trust Account – Fund 545		2003		2004	
Existing Balance	(1/1/03)	\$119,518	(1/1/04)	\$91,524	
Revenue		432,860		374,809	
Administrative Expenses		136,898		228,891	
Insurance Premium		322,735		106,446	
Transferred to Fund 544*		NA		105,119	
Ending Balance	(12/31/03)	\$ 92,745	(12/31/04)	\$25,877	

*2004 legislation requires that any remaining balance be transferred to the Pollution Liability Insurance Trust Account (less January's expenses).

Statutory Authority

- **Chapter 70.148 RCW, Underground Petroleum Storage Tanks** – Creates a state financial responsibility (pollution liability insurance) program meeting EPA standards for owners and operators of underground storage tanks.
- **Chapter 70.149 RCW, Heating Oil Pollution Liability Protection Act** – Authorizes PLIA to develop a program that provides pollution liability insurance for heating oil tanks
- **Title 374 WAC, Pollution Liability Insurance Agency**– Agency's rules and operating procedures.

POLLUTION LIABILITY INSURANCE AGENCY
Estimated Yearly Expenditures

Program	Claims		Administration	Oil Heat Premium	Total	
Commercial UST	\$ 1,274,920 (544)		\$ 415,186 (544)		\$ 1,690,106 (544)	
Oil Heat	\$ 935,099 (544)	\$ 1,125,000	\$ 436,709 (545)	\$ 110,250 (545)	\$ 935,099 (544)	\$ 1,671,959
	\$ 189,901 (545)				\$ 736,860 (545)	
Total	\$ 2,210,019 (544)	\$ 2,399,920	\$ 851,895	\$ 110,250 (545)	\$ 2,625,205 (544)	\$ 3,362,065
	\$ 189,901 (545)				\$ 736,860 (545)	

Fund 544 = Pollution Liability Insurance Trust Account funded by the Petroleum Products Tax, AKA "the large fund".

Fund 545 = Heating Oil Insurance Trust Account, funded by the oil heat dealers fee. Figures are based on an assumption of a fee of 1.2 cents per gallon. Gallon estimate based on 2003 sales of 61,405,000.

UST claim costs are a yearly average of the costs incurred during FY 03-04.

Oil Heat claim costs are based on the assumption of 150 claims per year at \$ 7,500 per claim (average claim cost in 2004 was \$ 6,096)

Administrative costs are based on the estimates submitted for the 05-07 biennium budget, including increased liability premium.

Oil Heat Insurance Premium is calculated at \$1.75 per tank for an estimated 63,000 registered tanks.

Revenue is collected for the previous year's sales. Example: 2004 revenue is based on gallons sold in 2003.

2005 revenues are a combination of the .6 cents per gallon and 1.2 cents per gallon because of the July 1, 2004 effective date for the fee increase.

Revenue estimates for '05-'06, are based on actual gallons sold in 2003 (last year reported).

In 2004, the insurance policy premium was reduced from \$5.50 per tank to \$1.75. The deductible paid by Colony Insurance was reduced from \$3500 per claim to \$500. The difference would be transferred to the claim payment column.

All oil heat claims have been paid out of Fund 544. Starting July 1, '04, some claims will be paid for by the additional revenue (fund balance transfer at end of calendar year will constitute payment of claims from fund 545).

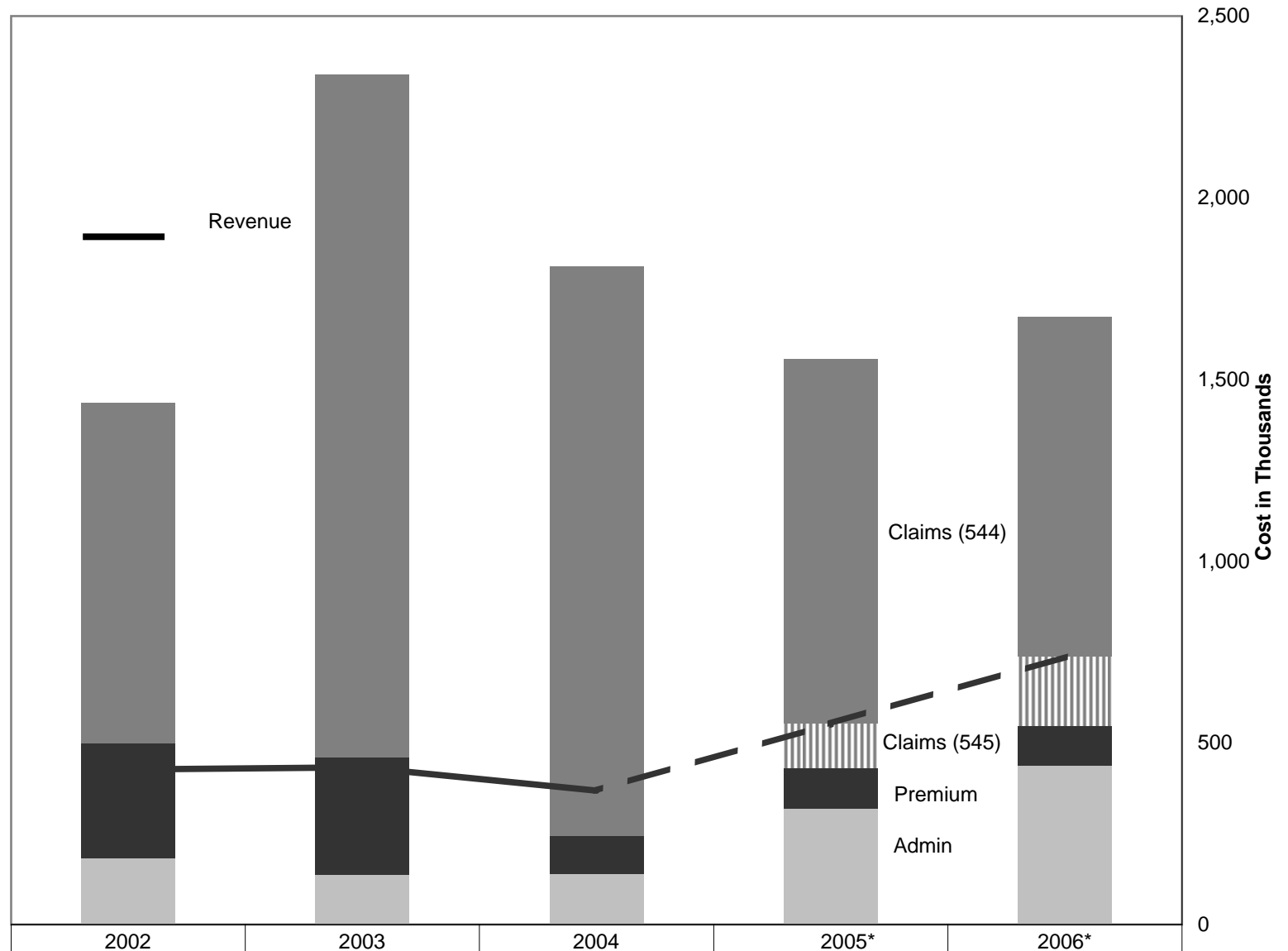
Payments shown here are based on date of payment and not "date-of-loss". Date-of-loss would refer to the year the claim was made.

Figures are based on fiscal years (7/1-6/30) and are shown through FY 2004 (7/1/03-6/30/04).

2006 increase in administration due to increased liability premium.

* 2005-2006 figures are estimates.

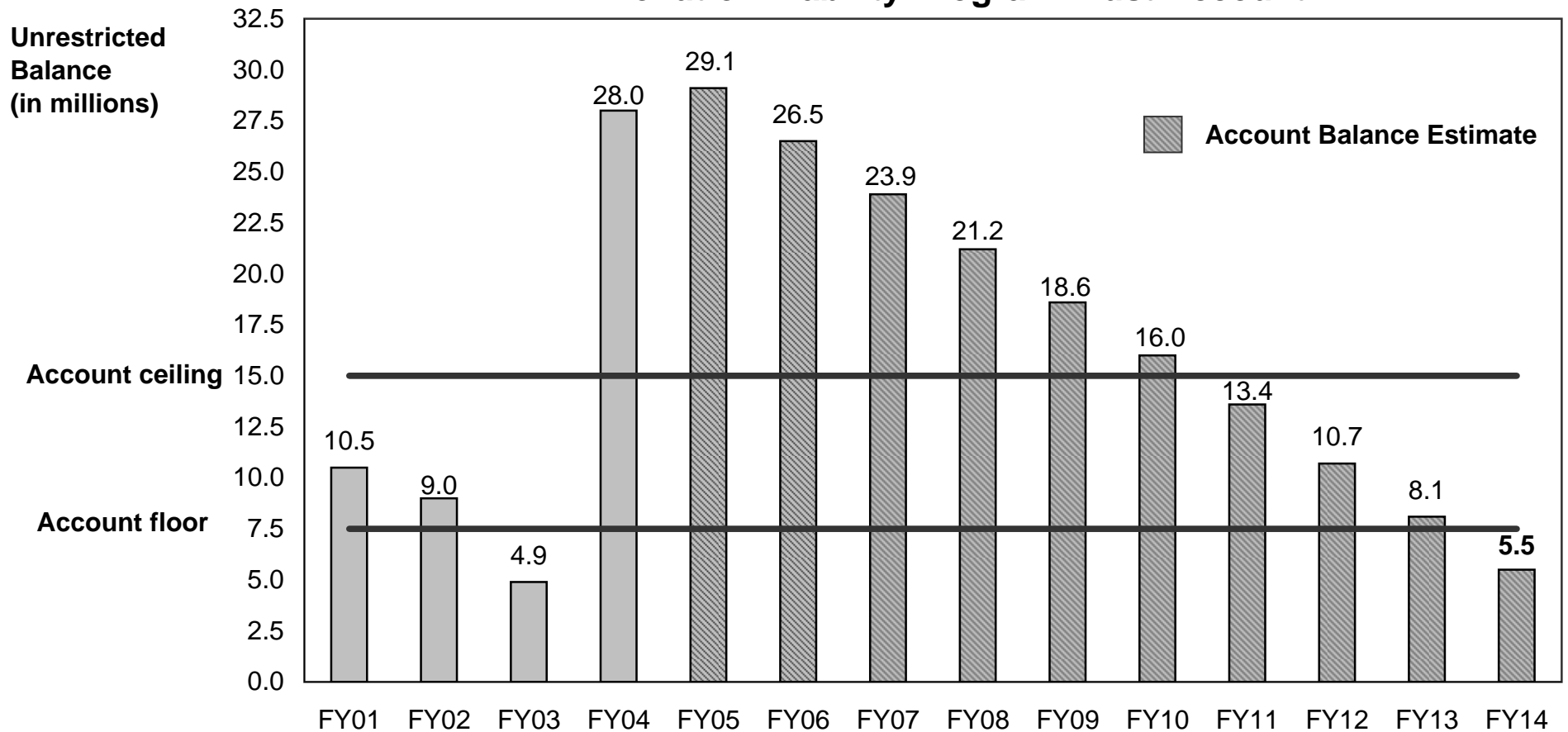
Oil Heat Insurance Program Revenues and Expenditures



*Estimates

Source: OFM AFRS (Claims Payments and estimates provided by PLIA)

Pollution Liability Program Trust Account



The unrestricted trust account balance is a product of revenue, agency expenditures (claims, administration etc.) and mandatory reserves. The reserves are "loss reserves" and "surplus reserves". The agency set aside a surplus reserve of \$8 million in 1990 for any catastrophic losses that may occur. The surplus reserve has remained unused. The loss reserve is money set aside to cover claims as they occur. When PLIA is notified of a potential claim, an estimate of future claim cost is determined. That amount of money is removed from the unrestricted trust account balance and put into the loss reserve until needed. The loss reserve is adjusted on a quarterly basis and reported to the Department of Revenue (DOR) for the purpose of calculating the unrestricted account balance. The Petroleum Product Tax is triggered when the account "floor" of 7.5 million is reached. The tax is shut off when the "ceiling" is reached.

Account balance estimate assumptions:

DOR/PLIA – Tax revenue based on actual monthly revenues through 8/04.

PLIA – Claim costs \$2.4 million/year. (Commercial UST claims based on average of FY 03-04; Oil Heat claims based on estimate of 150 claims per year at \$7,500 per claim; Loss reserve of \$3.2 million; Administrative costs of \$415,186/ year paid out of Pollution Liability Trust Account and \$436,709/year from Heating Oil Trust Account; Additional revenue in the Heating Oil Trust Account of \$189,901/year for claims based on a fee of 1.2 cents per gallon (using 2003 sales figure of 61,405,000 gallons sold).

FY = Fiscal Year. Fiscal years start on July 1 of the previous year (i.e. FY08 covers 7/1/07-6/30/08). Account balances are as of the end of the fiscal year.

Source: OFM General Ledger Trial Balance SWM 413A, DOR, and PLIA.

12/17/04